

BANKING STRUCTURE REVIEW PROJECT FEBRUARY 2018



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Structural Review & Recommendations

Section 1: Review of the State's Banking Relationships

High-level summary of service providers, accounts, services, fees, and relationships by State agencies.

Section 2: Strategic Organizational Recommendations

Strategic organizational issues identified by PFM.

Section 3: Structural & Rebidding Recommendations

Recommended changes to the structure of the State's banking relationships and rebidding framework.

Section 4: Operational Enhancement Recommendations

Assessment of cash management practices and operational enhancements recommended by PFM. –

Section 5: Analysis of Current Fees

Benchmarking of fees charged by the State's current banking partners and potential savings.

Section 6: Review of State Agencies



Strategic Organizational Recommendations

Centralization of Banking Functions & Services

“... current mix of centralized functions and decentralized services is creating gaps in service and it is making it more difficult to manage risks associated with cash management.”

Why?

- Key element of best practices
- Prudent approach to vendor management
- Defined policy-procedures and controls

Challenges

- Increased coordination and governance
- Requires additional resources
- Optimal allocation of cost is unclear

Optimization of Strategic Partners Portfolio

“using the best-of-breed model an organization selects multiple banking partners to deliver services based on experience, technical capabilities, specialized services, or commodity pricing.”

Why?

- Increase competitiveness of RFP process
- Added flexibility at a lower overall cost
- Coordinated approach for agencies/clients

Challenges

- Timing of RFPs
- Requires additional resources
- Multiple contract negotiations

Industry Expertise & Innovation for Government

“[a] financial inclusion strategy and policy should be put in place to provide broader and long-term guidelines to both policymakers and market players.”

Why?

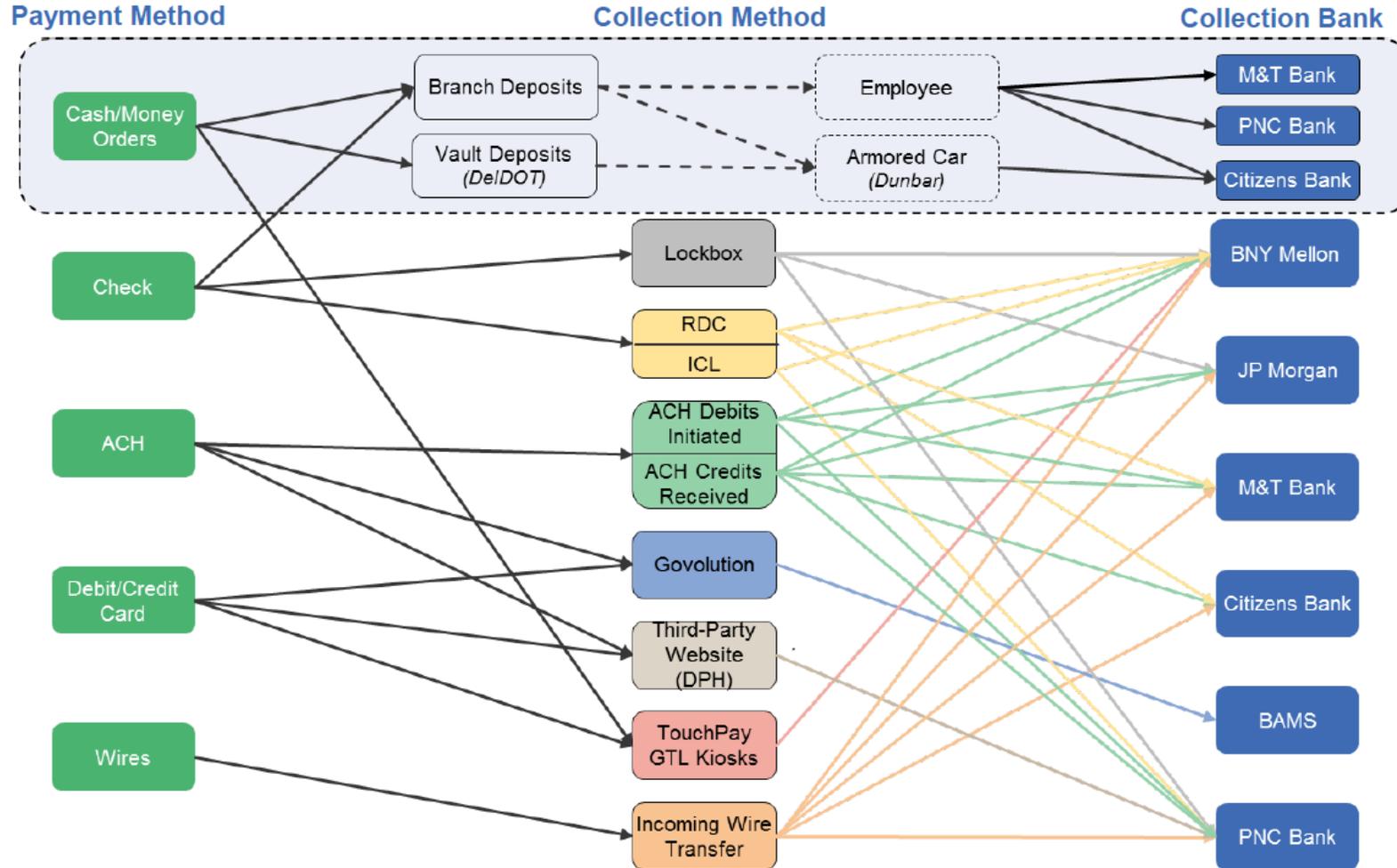
- Financial industry continues to evolve
- It is not just about banking services
- Articulate existing and anticipated needs

Challenges

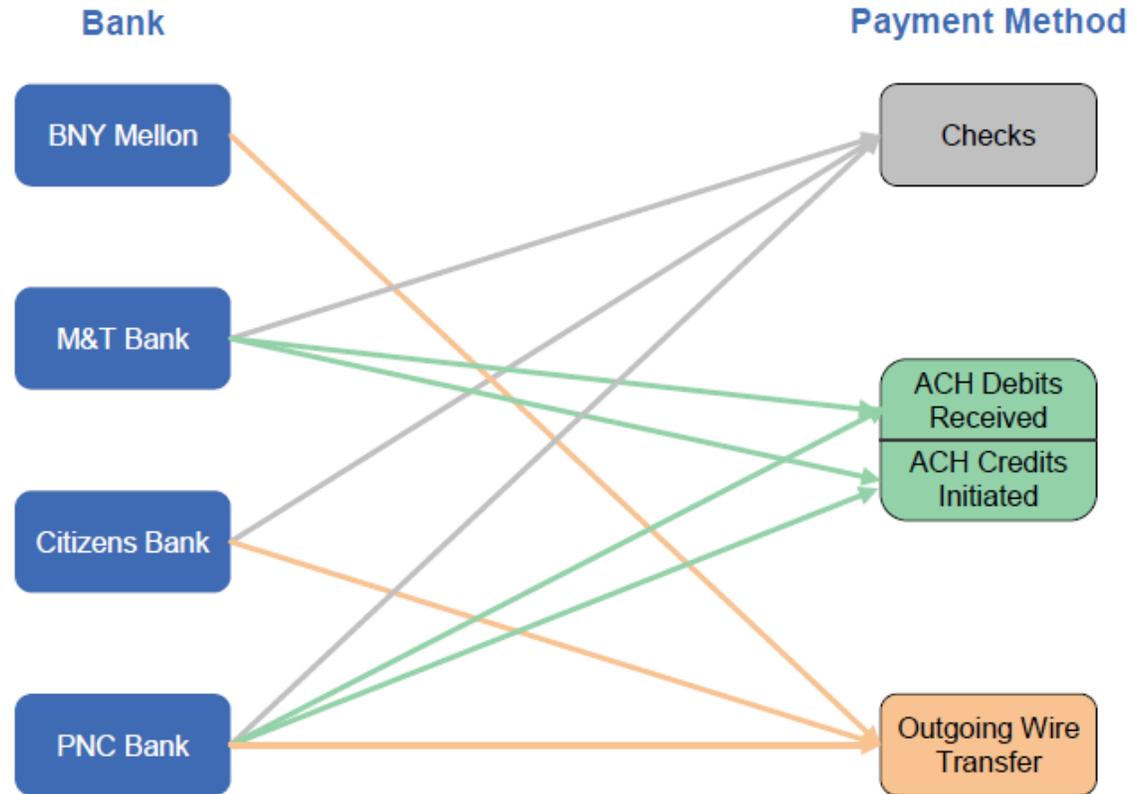
- Additional learning is required
- Requires additional resources
- May have budgetary implications



Depository Services Current Map



Disbursement Services Current Map



Summary of Analyzed Fees Approach #1

Bank	Current Annual Cost	Estimate of Total Annual Savings	
		Phoenix-Hecht Pricing Database	PFM Pricing Database
BNY Mellon	\$241,080	\$28,333 - \$87,627	\$21,110 - \$45,819
Citizens Bank	\$140,638	\$27,341 - \$71,326	\$52,443 - \$67,759
JP Morgan	\$79,197	\$0 - \$6,861	\$0 - \$7,149
M&T Bank (DelDOT)	\$286,062	\$45,101 - \$88,224	\$45,121 - \$78,271
M&T Bank (OST)	\$9,897	\$907 - \$5,262	\$5,172 - \$6,843
PNC Bank	\$1,046,771	\$3,531 - \$368,810	\$0 - \$279,176
Total Savings on Analyzed Services	\$1,803,643	\$105,213 - 628,110	\$123,846 - \$485,017

- Phoenix-Hecht Blue Book of Bank Pricing and PFM Databases
- Based on analyzed services = Annual savings range from \$105,213 to \$628,110 or 8.7% to 52.0% of total cost
- Includes only an exact match = Conservative estimate of possible savings



Summary of Analyzed Fees Approach #2

Bank	Current Annual Cost	Estimate of Total Annual Savings	
		Phoenix-Hecht Pricing Database	PFM Pricing Database
BNY Mellon	\$241,080	\$48,885 - \$151,186	\$47,104 - \$102,237
Citizens Bank	\$140,638	\$37,130 - \$96,861	\$71,475 - \$92,351
JP Morgan	\$79,197	\$0 - \$7,642	\$0 - \$8,095
M&T Bank (DelDOT)	\$286,062	\$98,525 - \$192,728	\$100,502 - \$174,339
M&T Bank (OST)	\$9,897	\$949 - \$5,506	\$5,459 - \$7,223
PNC Bank	\$1,046,771	\$4,913 - \$513,066	\$0 - \$448,703
Total Savings Applied to Total Relationship	\$1,803,643	\$190,400 - \$966,989	\$224,541 - \$832,948

- Phoenix-Hecht Blue Book of Bank Pricing and PFM Databases
- Based on analyzed services = Annual savings range from \$190,400 to \$966,989 or 10.6% to 53.6% of total cost
- Includes complete package of services used



Earnings Credit Rates & Opportunity Cost

	Effective ECR	Benchmark	Collected Balance	Annual Opportunity Cost	Quoted ECR	Effective ECR
BNY Mellon	0.38%	0.875%	\$6,135,988	\$30,557	0.72%*	0.38%
Citizens Bank	0.03%	0.875%	\$2,049,044	\$17,355	0.31%	0.03%
JP Morgan	0.61%	0.875%	\$1,024,071	\$2,745	0.75%	0.61%
M&T Bank (DelDOT)	0.39%	0.875%	\$26,177,794	\$127,486	0.50%	0.39%
M&T Bank (OST)	0.02%	0.875%	\$643,377	\$5,507	0.22%	0.02%
PNC Bank	0.18%	0.875%	\$55,884,355	\$387,279	0.35%	0.18%
TOTAL			\$91,914,628	\$570,929		

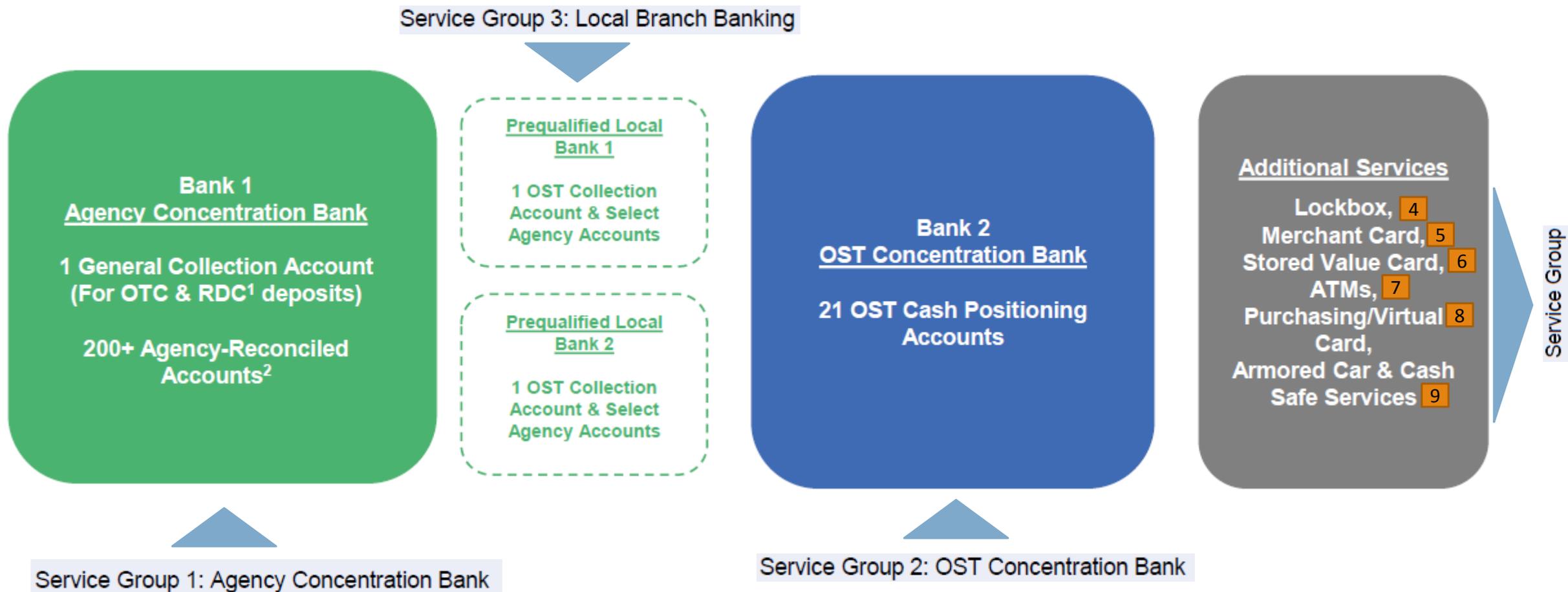


Purchasing Card & Virtual Card Rebates

REBATE GRID	
ANNUAL CHARGE VOLUME	REBATE RATE
\$70,000,000	1.82%
\$80,000,000	1.85%
\$95,000,000	1.86%
\$110,000,000	1.87%
\$125,000,000	1.88%
\$150,000,000	1.89%
\$175,000,000	1.90%
\$200,000,000	1.91%
\$225,000,000	1.92%
\$250,000,000	1.93%



Structural & Rebidding Recommendations



Rebidding Recommended Timeline

	Current Contract End Date	Contract Term for 2018 RFP	Begin Next RFP Process	Next Contract Start Date	Contract Term	Subsequent Contract Start Date
Service Group 1: Agency Concentration Bank	12/31/18	3 + two 2-year renewals	1/1/25	1/1/26	Max – 7 Years	1/1/33
Service Group 2: OST Concentration Bank	12/31/18	3 + one 2-year renewal	1/1/23	1/1/24	Max – 7 Years	1/1/31
Service Group 3: Local Branch Banking	12/31/18	3 years	1/1/21	1/1/22	Max – 7 Years	1/1/29
Service Group 4: Lockbox Processing Svcs.	12/31/18	6 years	1/1/24	1/1/25	Max – 7 years	1/1/32
Service Group 5: Merchant Card Processing	6/30/22	n/a	7/1/21	7/1/22	Max – 7 Years	7/1/29
Service Group 6: Stored Value Card	KeyBank 90-day Notice; FIS 10/18	3 + two 2-year renewals	1/1/25	1/1/26	Max – 7 years	1/1/33
Service Group 7: ATMs	90-day notice			N/A		
Service Group 8: Purchasing Card Program / Virtual Cards			Dependent upon Division of Accounting			
Service Group 9: Armored Car	Dependent upon completion of Service Groups 1 & 2, and the State's desire to pursue this service					



Comprehensive Banking Services RFP



Banking Network Recap

Methods

- Cash
- Check/Money Order
- ACH
- Wire Transfers
- Debit Card
- Credit Card
- E-Wallet
- Purchasing Card
- Virtual Card

Channels

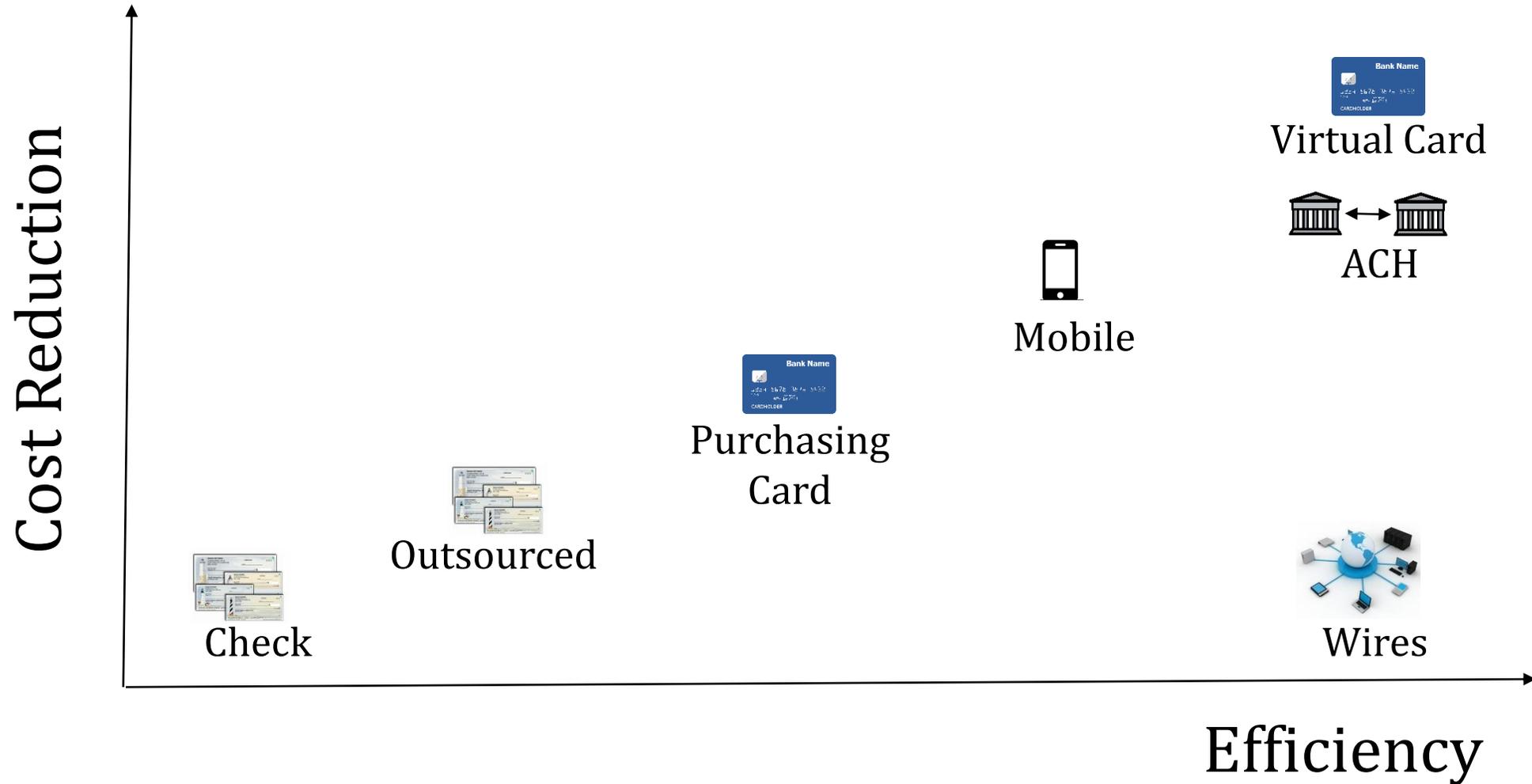
- Agency/Branch
- ATM/Cash Connect
- Remote Deposit Capture (RDC)
- Image Cash Letter (ICL)
- Lockbox
- Online
- Agency Terminals
- Remote Cash Safes
- Stored Value Card

Features

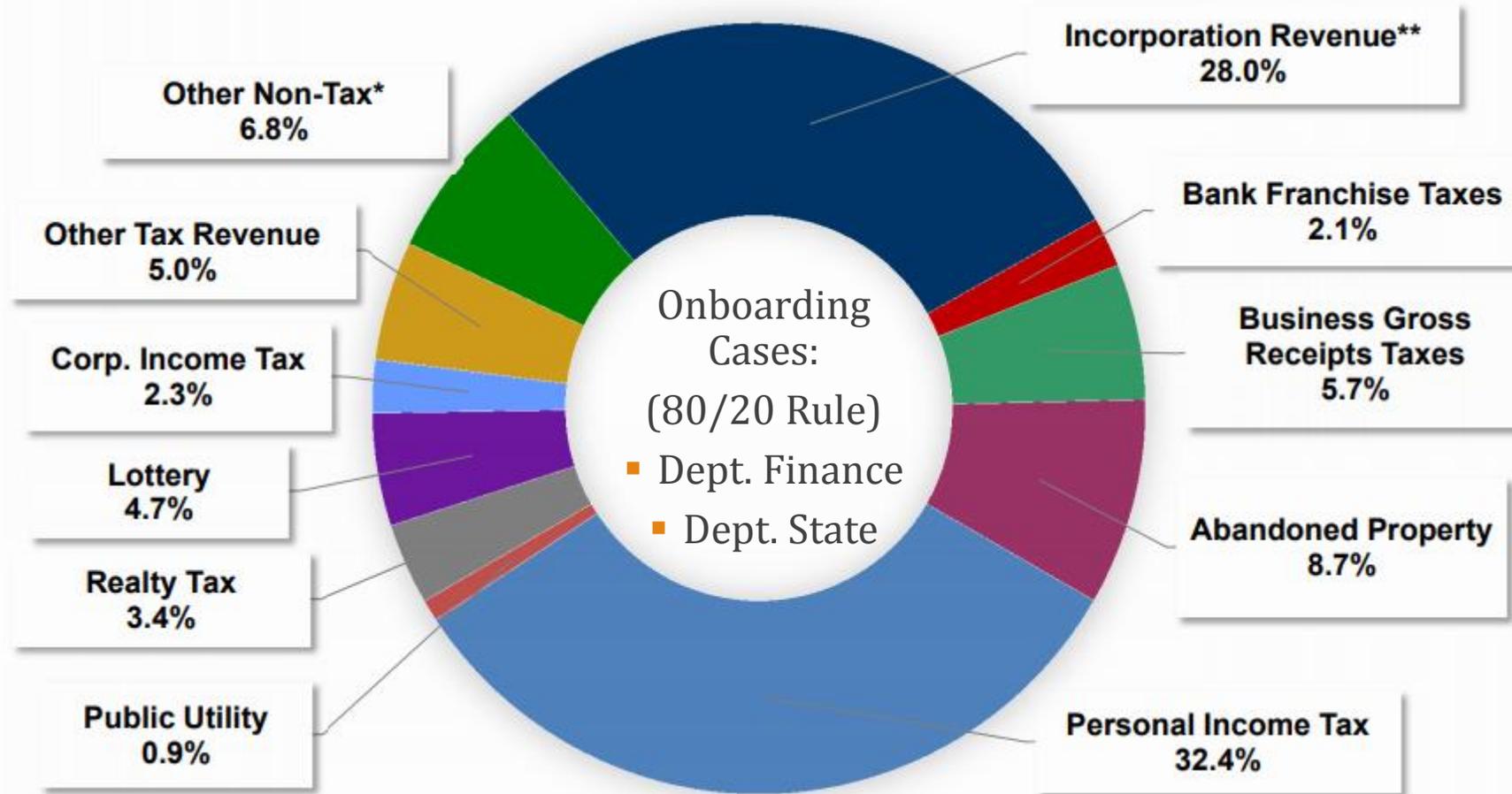
- Account Recon/Management (UPIIC)
- User Administration
- Reporting Capabilities
- Fraud Prevention Mechanisms (+P/+PP)
- Sweep Product(s) - Overdraft Protection
- File Transfers (Incoming/Outgoing)
- Collateralization
- Compliance
- Performance Management & Metrics



Methods and Costs



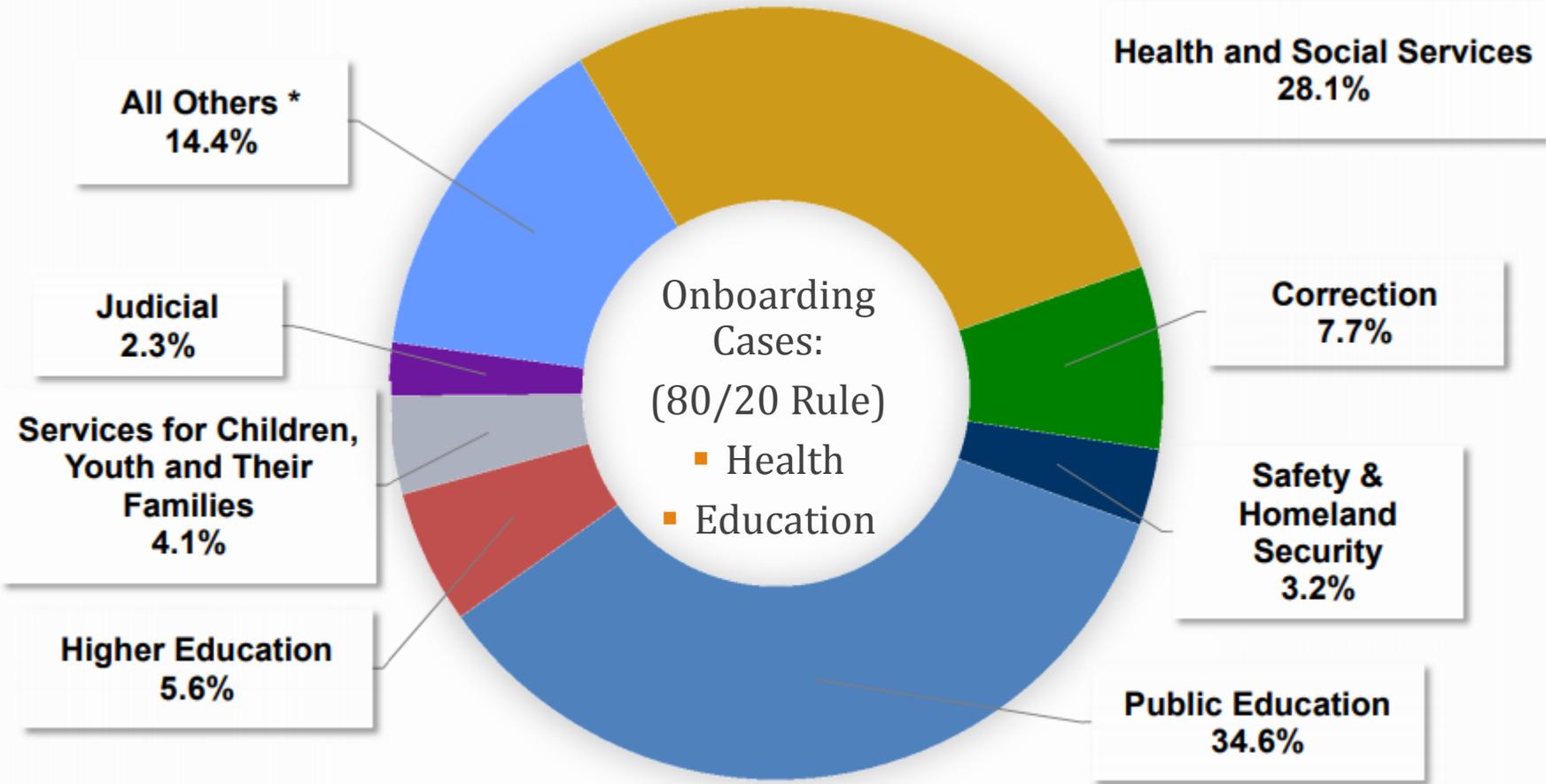
Proposed Onboarding Cases - Collections



Source: FY2019 Governor's Recommended Budget



Proposed Onboarding Cases – Disbursements



Source: FY2019 Governor's Recommended Budget



Banking Services Review Value Drivers

1

Achieve operational simplification

Implement a customer-centric (and eventually) digital strategy
Optimize and align portfolio of banking vendors and products
Eliminate-reduce-outsource manual and redundant processes

2

Reduce counterparty risk reduction

Improve compliance efficiency improving the risk profile
Coordinate cyber-security strategy
Ensure proper collateralization of state funds

3

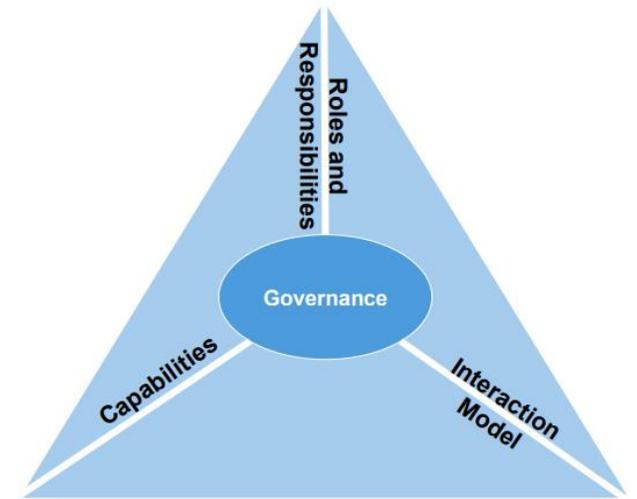
Enhance liquidity management

Plan for accounts payables and accounts receivables
Reduce number of transactions

4

Develop key procurement competencies

Policy – Functional Requirements – Stakeholder Engagement



Additional Value Drivers from DTI-DOF-AOA Reviews



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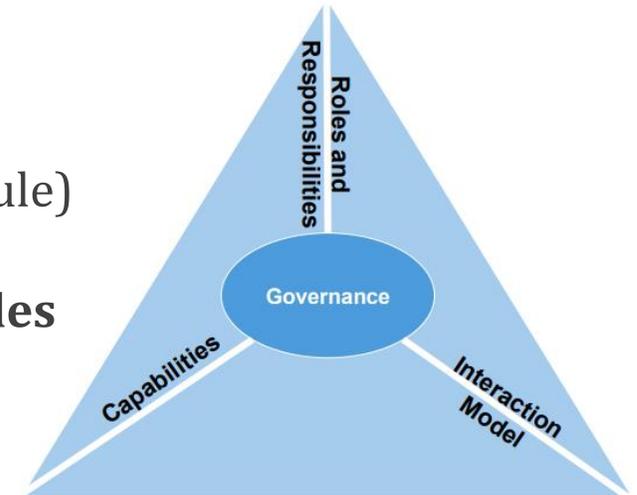
Achieve operational simplification

- Implement a customer-centric digital strategy
- Consolidate technologies currently used in state government
- Support technology modernization efforts (replacement schedule)

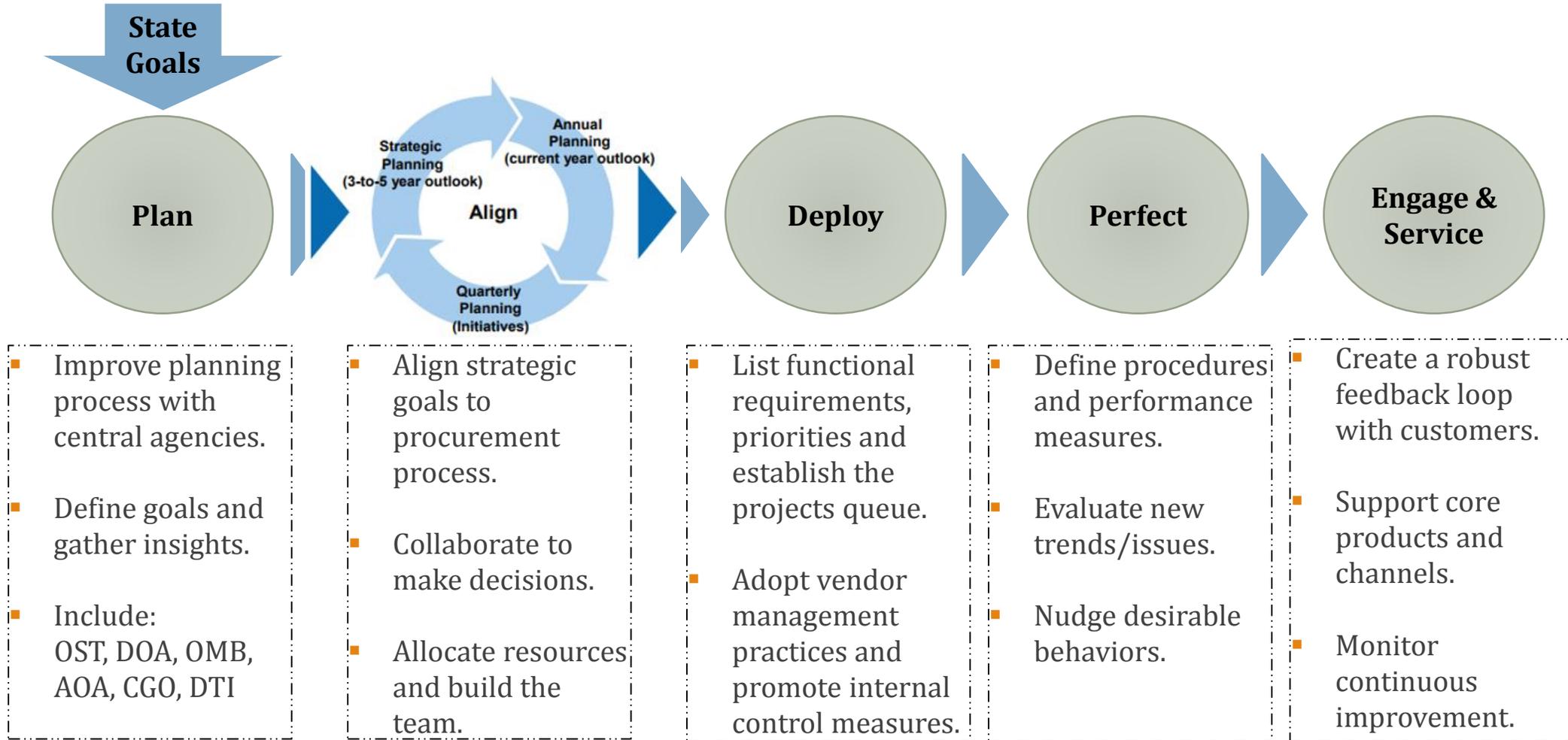
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Potential centralization of accounts payables and receivables

- Standardized practices set by state finance officers
- Enhanced internal controls
- Efficient processing



Banking Services Interaction Model



Key Procurement Competencies

COMPETENCY AREAS	BRIEF DESCRIPTION
Group I: PROCESS AND POLICY COMPREHENSION	
Ia. POLICIES AND REGULATIONS	<p>Understand the policies, procedures, rules, and regulations that govern procurement decisions and contract design. Apply these policies in a manner that enables innovative solutions to achieve desired outcomes rather than imposes constraints.</p> <p>Comply with public policy mandates, such as procurement-related socioeconomic goals and support for disadvantaged businesses.</p>
Ib. PROGRAM AND PROJECT MANAGEMENT	<p>Provide effective coordination for the purchase of public goods and services through project planning, developing and executing schedules and time lines, and managing for outcomes.</p>
Ic. CONTRACTING PROCESS	<p>Understand the mechanics of contracts and the contracting process, including the acquisition life cycle, elements of a contract, method and strategy, pricing techniques, competition, and principles of contract management. Understand electronic contract management systems and reporting tools that support contract workflow and data reporting.</p>

Source: The Volcker Alliance



Group 2: FUNCTIONAL REQUIREMENTS AND ANALYTICAL SKILLS

2a. REQUIREMENTS PLANNING AND UNDERSTANDING	Comprehend internal customer needs and desired outcomes; structure requirements for solicitations and contracts to support overall mission.
2b. BUSINESS ACUMEN AND FINANCIAL ANALYSES	Serve as a business adviser and manager throughout the procurement life cycle, and demonstrate a firm grasp of business and market fundamentals. Conduct fundamental procurement financial analyses: <ul style="list-style-type: none">• Spend analysis: Understand past, current, and future projected spending.• Cost and price analysis: Ensure that government is getting the best value in exchange for its investment, and understand alternative cost and price strategies and how they are influenced by requirements.• Market analysis: Understand supplier capabilities, costs, pricing, product and service trends, and overall supplier market dynamics.
2c. PROBLEM SOLVING AND CRITICAL THINKING	Apply critical thinking skills to develop innovative solutions that balance internal customer needs, best practices, core mission objectives, and procurement regulations.
2d. RISK ANALYSIS AND MANAGEMENT	Analyze and manage all aspects of financial, time line, performance, and legal risk associated with complex procurements.
2e. NEGOTIATIONS	Develop and execute effective negotiation approaches based on a strong understanding of supplier costs and pricing strategies, and of product capabilities.
2f. CONTRACT MANAGEMENT AND ADMINISTRATION	Work with internal customers to ensure suppliers are meeting agreed-on deliverables. Manage contract change orders with appropriate justifications. Ensure government is providing suppliers with appropriate feedback and resources. Close out contracts efficiently and effectively.

Key Procurement Competencies

Group 3: STAKEHOLDER ENGAGEMENT*

3a. INTERNAL CUSTOMER ALIGNMENT AND EXPERTISE	Collaborate with internal customers to understand the mission or program objectives and requirements. Use influence to assist with defining and shaping procurement strategy, resolve disagreements, and obtain buy-in across departments and groups. Maintain a clear customer service mind-set.
3b. MARKET ALIGNMENT AND EXPERTISE	Possess deep expertise in targeted industry sectors, including market trends, innovations, pricing and cost, competition, and best practices for structuring relationships. (Examples of targeted sectors common to public agencies include information technology, facilities management and services, and professional services.)
3c. SUPPLIER ENGAGEMENT	Partner with suppliers throughout the procurement process to ensure proper understanding of internal customer requirements and needs. Provide ongoing management of relationships with suppliers through the entire process to ensure performance against requirements and alignment with broader mission goals.

Source: The Volcker Alliance

